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Compilation of specified elements, accounts, or items of a financial statement; Statement on standards for accounting and review services 13

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Statement on Standards for Accounting and Review Services

July 2005

13

Issued by the Accounting and Review Services Committee

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Compilation of Specified Elements, Accounts, or Items of a Financial Statement

(AICPA, *Professional Standards*, vol. 2, AR sec. 110)

(*Rescindment of Interpretation No. 8, "Reports on Specified Elements, Accounts, or Items of a Financial Statement," of SSARS No. 1, Compilation and Review of Financial Statements, AICPA Professional Standards, vol. 2, AR sec. 9100.27-.28*)

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Compilation of Specified Elements, Accounts, or Items of a Financial Statement

1. Statements on Standards for Accounting and Review Services (SSARS) currently provide guidance concerning the standards and procedures applicable when an accountant submits unaudited financial statements to his or her client or third parties. By definition, presentations of specified elements, accounts, or items of a financial statement are not financial statements. This Statement expands SSARS to apply when an accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement.

2. A compilation of one or more specified elements, accounts, or items of a financial statement is limited to presenting financial information that is the representation of management (owners) without undertaking to express any assurance on that information. (The accountant might consider it necessary to perform other accounting services to compile the financial information.)

3. Examples of specified elements, accounts, or items of a financial statement that an accountant may compile include schedules of rentals, royalties, profit participation, or provision for income taxes.

Conditions for Compiling Specified Elements, Accounts, or Items of a Financial Statement

4. Nothing in this Statement is intended to preclude an accountant from preparing or assisting in the preparation of one or more specified elements, accounts, or items of a financial statement and submitting such specified elements, accounts, or items of a financial statement to the client without the issuance of a compilation report, unless the accountant has been engaged to compile such specified elements, accounts, or items of a financial statement. If an accountant prepares or assists a client in preparing a schedule of one or more specified elements, accounts, or items of a financial

statement,¹ the accountant should consider how such a presentation of specified elements, accounts, or items will be used. The accountant should consider the potential of being associated with the schedule and the likelihood that the user may inappropriately infer, through that association, an unintended level of assurance. If the accountant believes that he or she will be associated with the information, the accountant should consider issuing a compilation report so a user will not infer a level of assurance that does not exist.

5. An engagement to compile one or more specified elements, accounts, or items of a financial statement may be undertaken as a separate engagement or in conjunction with a compilation of financial statements.

Understanding With the Entity

6. When an accountant is engaged to compile one or more specified elements, accounts, or items of a financial statement, the accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should include a description of the nature and limitations of the services to be performed and a description of the report. The understanding should also provide:

- a. That the engagement cannot be relied upon to disclose errors, fraud,² or illegal acts,³ and
- b. That the accountant will inform the appropriate level of management of any material errors and of any evidence or information that comes to the accountant's attention during the engagement to compile one or more specified elements, accounts, or items of a financial statement⁴ that fraud or an illegal act may have

1. If the specified element, account, or item of a financial statement is included as accompanying information to the basic financial statements, the accountant should refer to Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.60), as amended.

2. For purposes of this Statement, *fraud* is an intentional act that results in a misstatement in compiled specified elements, accounts, or items of a financial statement.

3. For purposes of this Statement, *illegal acts* are violations of laws or government regulations, excluding fraud.

4. Performance requirements with respect to an engagement to compile one or more specified elements, accounts, or items of a financial statement are contained in paragraphs 8 and 9.

occurred.⁵ The accountant need not report any matters regarding illegal acts that may have occurred that are clearly inconsequential and may reach agreement in advance with the entity on the nature of any such matters to be communicated.

7. When the accountant is engaged to compile one or more specified elements, accounts, or items of a financial statement and evidence or information comes to his or her attention during the engagement that fraud or an illegal act may have occurred, the accountant must adhere to the communication requirements contained in SSARS No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.61-.62), as amended.

Performance Requirements

8. When the accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement, he or she must adhere to the compilation performance requirements contained in SSARS No. 1 (AR sec. 100.07-.10), as amended.

9. Before issuance of a compilation report on one or more specified elements, accounts, or items of a financial statement, the accountant should read such compiled specified elements, accounts, or items of a financial statement and consider whether the information appears to be appropriate in form and free of obvious material errors. In this context, the term *error* refers to mistakes in the compilation of the specified elements, accounts, or items of a financial statement, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including disclosures, if presented.

5. Whether the act is, in fact, fraudulent or illegal is a determination that is normally beyond the accountant's professional competence. An accountant, in reporting on one or more specified elements, accounts, or items of a financial statement, presents himself or herself as one who is proficient in accounting and compilation services. The accountant's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his or her attention may be fraudulent or illegal. However, the determination as to whether a particular act is fraudulent or illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.

Reporting Requirements

10. When the accountant is engaged to compile or issues a compilation report on one or more specified elements, accounts, or items of a financial statement, the basic elements of the report are as follows:

- a.* A statement that the specified element(s), account(s), or item(s) identified in the report were compiled. If the compilation was performed in conjunction with a compilation of the company's financial statements, the paragraph should so state and indicate the date of the accountant's compilation report on those financial statements. Furthermore, any departure from the standard report on those statements should also be disclosed if considered relevant to the presentation of the specified element(s), account(s), or item(s).
- b.* A statement that the compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
- c.* A description of the basis on which the specified element(s), account(s), or item(s) are presented if that basis is not generally accepted accounting principles and a statement that that basis of presentation is a comprehensive basis of accounting other than generally accepted accounting principles.
- d.* A statement that a compilation is limited to presenting financial information that is the representation of management (owners).
- e.* A statement that the specified element(s), account(s), or item(s) have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on it (them).
- f.* A signature of the accounting firm or the accountant as appropriate. (The signature could be manual, stamped, electronic, or typed.)
- g.* The date of the compilation report. (The date of completion of the compilation should be used as the date of the accountant's report.)

Any other procedures that the accountant might have performed before or during the compilation engagement should not be described in the report.

11. Each page of the compiled specified elements, accounts, or items of a financial statement should include a reference, such as “See Accountant’s Compilation Report.”

12. Following are illustrations of accountant’s compilation reports on specified elements, accounts, or items of a financial statement.

Report Related to Accounts Receivable

I (we) have compiled the accompanying schedule of accounts receivable of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting financial information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying schedule of accounts receivable and, accordingly, do not express an opinion or any other form of assurance on it.

Report Related to the Schedule of Depreciation— Income Tax Basis

I (we) have compiled the accompanying schedule of depreciation—income tax basis of XYZ Company as of December 31, 20XX, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The schedule of depreciation—income tax basis has been prepared on the accounting basis used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting financial information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying schedule of depreciation—income tax basis and, accordingly, do not express an opinion or any other form of assurance on it.

13. An accountant is not precluded from issuing a compilation report on one or more specified elements, accounts, or items of a financial statement for an entity with respect to which the accountant is not independent.⁶ If the accountant is not independent, he or

6. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA *Code of Professional Conduct*.

she should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, the following should be included as the last paragraph of the report:

I am (we are) not independent with respect to XYZ Company.

14. This Statement is effective for engagements entered into after December 15, 2005. Early application is permitted.

This Statement titled Compilation of Specified Elements, Accounts, or Items of a Financial Statement was adopted unanimously by the assenting votes of the seven members of the Accounting and Review Services Committee.

Accounting and Review Services Committee (2004-2005)

Andrew M. Cohen, *Chair*
Suzanne M. Heidenreich
Henry Krostich
John J. Malachoski

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Walter H. Webb
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AICPA Staff

Charles E. Landes
Vice President
Professional Standards

Michael P. Glynn
Technical Manager
Audit and Attest Standards

Note: *Statements on Standards for Accounting and Review Services (SSARS) are issued by the AICPA Accounting and Review Services Committee (ARSC), the senior technical body of the Institute designated to issue pronouncements in connection with the unaudited financial statements or other unaudited financial information of a non-public entity. Rule 202, Compliance With Standards, of the Institute's Code of Professional Conduct requires an AICPA member who performs either a compilation or a review (the accountant) to comply with standards promulgated by the ARSC. The accountant should have sufficient knowledge of the SSARS to identify those that are applicable to his or her compilation or review and should be prepared to justify departures from the SSARS.*

